

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

January 8, 2003

Mr. Craig G. DeKany, Reimbursement Manager
HCR – Manor Care
Post Office Box 10086
Toledo, Ohio 43699-0086

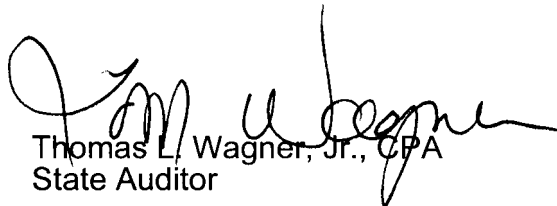
Re: AC# 3-MAN-J0 – Manor Care of Lexington, Inc.

Dear Mr. DeKany:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1999 through September 30, 2000. That report was used to set the rate covering the contract period beginning October 1, 2001.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/kss

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph P. Hayes

**MANOR CARE OF LEXINGTON, INC.
WEST COLUMBIA, SOUTH CAROLINA**

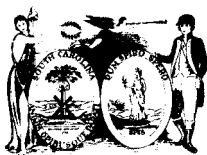
**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2001
AC# 3-MAN-J0**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

November 14, 2002

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Manor Care of Lexington, Inc., for the contract period beginning October 1, 2001, and for the twelve month cost report period ended September 30, 2000, as set forth in the accompanying schedules. The management of Manor Care of Lexington, Inc. is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

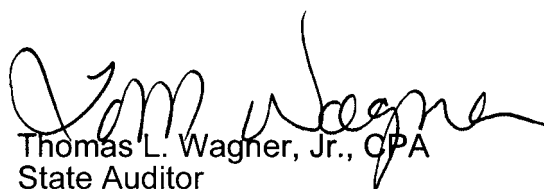
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Manor Care of Lexington, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Manor Care of Lexington, Inc. dated as of October 1, 2001 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
November 14, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.



Thomas L. Wagner, Jr., CPA
State Auditor

MANOR CARE OF LEXINGTON, INC.

Computation of Rate Change
For the Contract Period
Beginning October 1, 2001
AC# 3-MAN-J0

10/01/01-
09/30/02

Interim Reimbursement Rate (1)	\$106.63
Adjusted Reimbursement Rate	<u>101.22</u>
Decrease in Reimbursement Rate	\$ <u><u>5.41</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

MANOR CARE OF LEXINGTON, INC.

Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2001 Through September 30, 2002
AC# 3-MAN-J0

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$48.15	\$53.97	
Dietary		9.48	10.74	
Laundry/Housekeeping/Maintenance		<u>7.49</u>	<u>9.23</u>	
Subtotal	\$ <u>5.18</u>	65.12	73.94	\$ 65.12
Administration & Medical Records	\$ <u>-</u>	<u>16.10</u>	<u>11.47</u>	<u>11.47</u>
Subtotal		81.22	<u>\$85.41</u>	76.59
<u>Costs Not Subject to Standards:</u>				
Utilities		3.01		3.01
Special Services		.46		.46
Medical Supplies & Oxygen		4.96		4.96
Taxes and Insurance		1.40		1.40
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$91.05</u>		86.42
Inflation Factor (3.80%)				3.28
Cost of Capital				9.28
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				5.18
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.43)
Nurse Aide Staffing Add-On 10/01/00				<u>.49</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$101.22</u>

MANOR CARE OF LEXINGTON, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2000
AC# 3-MAN-J0

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$2,305,806	\$ -	\$ 51,805 (6) 3,673 (6)	\$2,250,328
Dietary	448,821	-	5,992 (6)	442,829
Laundry	93,585	-	7,552 (3) 1,873 (6)	84,160
Housekeeping	180,052	931 (8)	13,829 (3) 4,777 (6) 836 (9)	161,541
Maintenance	104,568	513 (8)	179 (6) 512 (9)	104,390
Administration & Medical Records	750,345	2,397 (5) 2,937 (7) 1,985 (8)	666 (6) 1,649 (6) 1,934 (9) 983 (10)	752,432
Utilities	140,738	691 (8)	691 (9)	140,738
Special Services	21,551	6,319 (10)	6,326 (6)	21,544
Medical Supplies & Oxygen	240,997	-	3,615 (5) 398 (6) 5,044 (10)	231,940
Taxes and Insurance	180,268	853 (8)	115,534 (4) 309 (9)	65,278
Legal Fees	-	-	-	-

MANOR CARE OF LEXINGTON, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2000
AC# 3-MAN-J0

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	431,798	23,524 (1) 1,090 (8) <u>3,350 (11)</u>	22,438 (2) 2,937 (7) <u>740 (9)</u>	433,647
Subtotal	4,898,529	44,590	254,292	4,688,827
Ancillary	151,642	-	-	151,642
Non-Allowable	626,367	22,438 (2) 15,690 (3) 115,534 (4) 1,218 (5) 77,338 (6) <u>5,022 (9)</u>	23,524 (1) 6,063 (8) 292 (10) 3,350 (11)	830,378
Total Operating Expenses	<u>\$5,676,538</u>	<u>\$281,830</u>	<u>\$287,521</u>	<u>\$5,670,847</u>
Total Patient Days	<u>46,380</u>	<u>351 (12)</u>	<u>-</u>	<u>46,731</u>
Total Beds	<u>133</u>			

MANOR CARE OF LEXINGTON, INC.
Adjustment Report
Cost Report Period Ended September 30, 2000
AC# 3-MAN-J0

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$251,035	
	Other Equity	281,477	
	Cost of Capital	23,524	
	Accumulated Depreciation		\$532,512
	Nonallowable		23,524
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	22,438	
	Cost of Capital		22,438
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Retained Earnings	5,691	
	Nonallowable	15,690	
	Laundry		7,552
	Housekeeping		13,829
	To remove duplicate posting of expense and properly charge expense applicable to the prior period HIM-15-1, Sections 2302.1 and 2304		
4	Nonallowable	115,534	
	Taxes and Insurance		115,534
	To adjust liability insurance expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
5	Medical Records	2,397	
	Nonallowable	1,218	
	Medical Supplies		3,615
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		

MANOR CARE OF LEXINGTON, INC.
Adjustment Report
Cost Report Period Ended September 30, 2000
AC# 3-MAN-J0

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Nonallowable	77,338	
	Nursing		51,805
	Restorative		3,673
	Dietary		5,992
	Laundry		1,873
	Housekeeping		4,777
	Maintenance		179
	Administration		666
	Medical Records		1,649
	Medical Supplies		398
	Special Services		6,326
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
7	Administration	2,937	
	Cost of Capital		2,937
	To properly offset income against related expense HIM-15-1, Sections 2102.3 and 2304		
8	Housekeeping	931	
	Maintenance	513	
	Administration	1,985	
	Utilities	691	
	Taxes and Insurance	853	
	Cost of Capital	1,090	
	Nonallowable		6,063
	To reverse DH&HS adjustment to remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
9	Nonallowable	5,022	
	Housekeeping		836
	Maintenance		512
	Administration		1,934
	Utilities		691
	Taxes and Insurance		309
	Cost of Capital		740
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

MANOR CARE OF LEXINGTON, INC.
Adjustment Report
Cost Report Period Ended September 30, 2000
AC# 3-MAN-J0

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Special Services	6,319	
	Administration		983
	Medical Supplies		5,044
	Nonallowable		292
	To adjust special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
11	Cost of Capital	3,350	
	Nonallowable		3,350
	To adjust capital return State Plan, Attachment 4.19D		
12	<u>Memo Adjustment:</u>		
	To increase total patient days by 351 to 46,731		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$820,033</u>	<u>\$820,033</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MANOR CARE OF LEXINGTON, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2000
AC# 3-MAN-J0

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.3848</u>	<u>2.3848</u>	
Deemed Asset Value (Per Bed)	37,246	37,246	
Number of Beds	<u>121</u>	<u>12</u>	
Deemed Asset Value	4,506,766	446,952	
Improvements Since 1981	1,992,723	6,807	
Accumulated Depreciation at 9/30/00	<u>(2,091,855)</u>	<u>(61,511)</u>	
Deemed Depreciated Value	4,407,634	392,248	
Market Rate of Return	<u>.058</u>	<u>.058</u>	
Total Annual Return	255,643	22,750	
Return Applicable to Non-Reimbursable Cost Centers	(1,202)	(107)	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	254,441	22,643	
Depreciation Expense	141,308	18,932	
Amortization Expense	-	-	
Capital Related Income Offsets	(2,672)	(265)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(652)</u>	<u>(88)</u>	<u>Total</u>
Allowable Cost of Capital Expense	392,425	41,222	\$433,647
Total Patient Days (Minimum 96% Occupancy)	<u>42,515</u>	<u>4,216</u>	<u>46,731</u>
Cost of Capital Per Diem	\$ <u>9.23</u>	\$ <u>9.78</u>	\$ <u>9.28</u>

MANOR CARE OF LEXINGTON, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2000
AC# 3-MAN-J0

6/30/89 Cost of Capital and Return on Equity		
Capital Per Diem Reimbursement	\$ 6.93	\$ N/A
Adjustment for Maximum Increase	<u>3.99</u>	<u>N/A</u>
Maximum Cost of Capital Per Diem	\$ <u>10.92</u>	\$ <u>9.78</u>
Reimbursable Cost of Capital Per Diem		\$9.28
Cost of Capital Per Diem		<u>9.28</u>
Cost of Capital Per Diem Limitation		\$ <u>-</u>

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